ENERGY NORTH INC.

A YEAR OF CONTRASTS

1998 ANNUAL REPORT

ENERGY NORTH INC.

SUCCESSFULLY APPLYING STRATEGIES FOR GROWTH

Energy North Inc. is a full cycle exploration and development Company combining exploration fundamentals with the latest in advanced technology to generate growth opportunities in the Western Canadian Sedimentary Basin. A combination of adhering to principles and strategies focused on long term value addition has allowed the Company to record production and revenue growth every year since its inception in 1996. The Company is based in Calgary, Alberta and listed for public trading on the Alberta Stock Exchange under the symbol ENI.

You are cordially invited to attend
The Annual General Meeting for the Shareholders of

ENERGY NORTH INC.

Thursday, April 22, 1999 at 4:00 pm
Belaire Room, The Westin Hotel Calgary
320 - 4 Avenue SW, Calgary, AB

Reception to follow

Thank you to all our investors for your continued support

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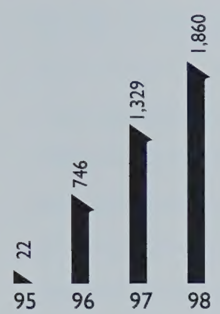
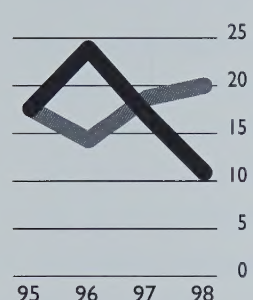
HIGHLIGHTS

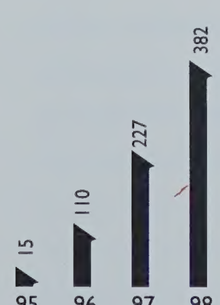


Net Revenue
$ thousands



Pricing
$ per BOE

Oil price
Gas price (BOE equiv.)



Production Profile
Average BOE/d

Fiscal Year Ending December 31

	1998	1997	% Change
FINANCIAL			
Petroleum and Natural Gas Revenue	**$ 1,860,685**	$ 1,329,295	40
Cash Flow from Operations	**233,463**	294,295	-21
Cash Flow per share	**0.01**	0.01	–
Net Earnings	**(2,706,515)**	(189,651)	–
Net Earnings per Share	**(0.10)**	(0.01)	–
Capital Expenditures	**3,588,187**	4,566,642	-21
Total Assets	**8,068,965**	9,863,311	-18
Bank Debt	**2,539,669**	nil	–
Shareholders' Equity	**3,386,195**	7,044,831	-52
Common Shares Outstanding			
End of Period	**29,320,469**	23,520,469	25
Weighted Average	**27,954,088**	23,520,469	19
Fully Diluted	**31,570,469**	35,737,136	-12
OPERATIONS			
Daily Average Production			
Crude Oil and NGLs (Bbls per day)	**243**	153	59
Natural Gas (Mcf per day)	**1,388**	743	87
Total BOE per day	**382**	227	68
Average Selling Price			
Crude Oil and NGLs ($ per Bbl)	**10.94**	17.02	-36
Natural Gas ($ per Mcf)	**2.06**	1.87	10
Proven Plus 50% Probable Reserves			
Crude Oil and NGLs (Bbls)	**885,800**	1,194,400	-26
Natural Gas (MMcf)	**2,957.5**	2,422.1	22
Total BOE	**1,181,550**	1,436,610	-18
Present Value of Reserves			
Discounted before Taxes at 15 percent	**$ 6,553,500**	$ 6,419,300	2
Discounted before Taxes at 10 percent	**$ 7,585,400**	$ 7,563,900	–

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

TO OUR SHAREHOLDERS
YEAR IN REVIEW

What a difference a year makes. In 1998 Canadian Junior oil companies encountered a variety of challenges seldom seen in the oil industry. The reality of commodity based business is that it has cycles both up and down. The current down cycle has been with us longer than expected and price declines have been deeper than expected. With a continual downward trend starting at the end of 1997, oil prices have hit and are sustaining historic lows and stubbornly resist recovery above U.S. $12.50 per barrel. This has dramatically affected cash flow and the availability of funds for new activity, which translates into reduced capital programs for 1999 and therefore reduced expectations of growth. The reduced expectation of growth manifests itself in very soft and illiquid equity markets. In the optimistic view, reduced capital programs mean a decrease in new supply of oil and natural gas setting the stage for a rebound in pricing.

Despite the challenges faced in 1998, I am pleased to report on the Company's successful performance. By year end we were able to report record production rates for both oil and gas, higher revenues, and a vastly increased portfolio of exploration and development projects, most of which are supported by seismic. The effect of low prices was felt in cash flow, which despite a 68 percent increase in production volumes, was $233,463, a decrease of $60,832 from the prior year. To fully appreciate the effect low oil pricing has on cash flow, I would encourage you to look at the year over year cash flow analysis we have presented in the management discussion and analysis section of this report.

Average production rates of 243 barrels of oil per day were up 59 percent from the 153 barrels per day achieved in 1997. Another goal achieved in 1998 was a shift in our production profile towards natural gas with natural gas production increasing 87 percent to 1.4 million cubic feet per day. Our production ratio is now 60 percent oil and 40 percent gas. Petroleum and natural gas revenues increased to $1.8 million up 40 percent from the prior year.

We are optimistic about improvements in production rates and cash flow in 1999 as the strong operational growth shown in 1998 continues. The effects of following our business plan, despite adversity in commodity pricing, are translating into rising production volumes and this trend is forecasted to continue. Our business plan and strategies dictate that we focus on the fundamentals and improve on the way we find, develop and produce our reserves.

ADDING CAPABILITY TO MANAGE GROWTH

The Company is happy to announce the appointment of another key individual, Mr. Bill Patterson, C.A. as Vice President, Finance and Chief Financial Officer. Mr. Patterson's background and expertise in oil and gas finance and tax will have a significant impact on Energy North's ability to manage growth. Further appointments which will strengthen both our exploration and operational capability are expected throughout the year.

We are and have been affected by this period of difficult pricing. Our philosophy of pragmatic optimism in a tough environment creates its own opportunities and we intend to take advantage.

OUR STRENGTHS ARE MANY

We're backed by a solid balance sheet. We have debt at a manageable level. A good relationship with our lender the Alberta Treasury Branch, allows us the financial flexibility to execute our business plan with confidence. Early in 1999, we began negotiating the sale of non producing assets and acquisition of reserves and production which if successful, will reduce our ratio of bank debt to projected cash flow to 2.0. The combination of cash flow, minor property sales and our credit facility gives us the ability to invest in 1999 at levels which will create growth. In addition, we anticipate property swaps which will modify our portfolio to lighter gravity crude oil and liquids rich gas.

We've reached a size, with a portfolio of projects that allows us to be selective with our reinvestment. During 1998 our ability to adapt was evident in our switch to emphasize natural gas projects over crude oil development opportunities. A second example is our ability to record growth even after dedicating significant time to acquisitions. In respect to our attempted acquisitions, after a period of constructive and open negotiation, extensive due diligence revealed commercial, financial and operational risks in executing the planned transactions which, in the opinion of our board and management would have affected the viability of the future merged company. In light of increasingly challenging fundamentals we considered the risks to be so significant as to undermine the future benefits and synergies as stated as part of the rationale for the planned mergers.

Our current position will allow us to take advantage of a lower cost environment in 1999 which may pay off in better opportunities and performance for years to come. We are and have been affected by this period of difficult pricing. Our philosophy of pragmatic optimism in a tough environment creates its own opportunities and we intend to take advantage. Just as 1998 was one of the toughest years to be an oil and gas company, 1999 has the potential to be one of the best. We believe the current business environment offers as many opportunities as challenges, and we anticipate making these opportunities translate to value for our shareholders.

1999 ACTIVITY

Our forecast for 1999 is oil prices averaging US $15.00 US per barrel and natural gas prices averaging CDN $2.50 per thousand cubic feet.

We will concentrate our activity in three major areas. Significant exploration, development and acquisition opportunities have been defined for both oil and natural gas additions in our Eastern Alberta Region. Subsurface mapping integrated with new seismic programs acquired in 1998 created drilling projects in the liquids rich gas West Central Alberta Region. Additional mapping, seismic and prospect development in the multi zone gas potential Fairview Alberta Region has been followed with land acquisition. We expect exploration expenditures will consume about 40 percent of our 1999 capital program with the remainder being dedicated to development opportunities.

To achieve our objective we will rely on the expertise of our most important resource, our people, most of whom are shareholders.

OBJECTIVES

Our objectives for 1999 are to double both production volumes and reserves and to increase our netbacks through lower operating costs. In the current low price and cost environment that has developed we see an opportunity to be counter cyclical and will dedicate significant effort to increasing our exposure to oil. We will continue to dispose of the remainder of our non core minority working interest properties and further strengthen our asset base and undeveloped land base through acquisition.

ACKNOWLEDGMENTS

I welcome Bill Patterson to the Energy North Management group. I thank all loyal shareholders for their continued support and thank our employees, consultants and directors for their ongoing commitment, advice and dedication in helping to make Energy North a successful emerging junior oil and gas company.

Respectfully submitted on behalf of the Board of Directors,

Richard N. Edgar, P. Geol.
President & C.E.O.

February 25, 1999

REVIEW OF ACTIVITY

In the dramatically changing environment, it is critical to establish a hard and fast plan that has a clearly articulated vision.

In the dramatically changing environment, it is critical to establish a hard and fast plan that has a clearly articulated vision. Just as important is the need to distinguish between unchanging values, regardless of external influences, and those strategies which can be adapted to take advantage of new and different opportunities. Energy North's activity in 1998 illustrates this distinction. Much of our activity is a direct and consistent continuation along the path we began two years ago. Some of our activity was successfully adapted, continuing to support our fundamental approach, yet showing our ability to adapt and respond when appropriate.

CORPORATE STRATEGY

Energy North has developed a corporate strategy that we have presented to shareholders in each of our last two annual reports. Our strategies remain the cornerstone of our approach to the business:

- Grow through drilling
- Concentration on technology-driven, moderate risk projects
- Focus on specific play types
- High priority placed on rapid cash flow generation
- Management of financial risk through appropriate working interests
- Balance of low risk development plays with high impact exploration prospects

1998 OBJECTIVES	1998 RESULTS	KEY INFLUENCES
Add production at less than $10,000 per BOE per day	$12,825 per BOE per day	High service costs held through first half 1998 Expect 1999 will be more cost efficient
Increase production base by 100 percent per year until 2000	68 percent production increase	Activity reduced by capital constraints Significant investment made in new prospect development and seismic
Increase reserve base by 100 percent per year until 2000	22 percent gas reserve increase decreased oil reserves	Reduced capital investment and price related reserve revisions; replaced production
Achieve an equal balance of oil and gas production	60 percent oil, 40 percent gas	Increased natural gas component by focusing on natural gas exploration and development

OPERATIONS SUMMARY

PRODUCTION GROWTH

For Energy North, a clearly defined and implemented business plan has been invaluable for growth from an "emerging" to a junior oil and gas company. Average daily production increased 68 percent from 227 BOE per day in 1997 to 382 BOE per day in 1998. Significant increases in daily production and revenues occurred during 1998, at the same time that new opportunities were generated for future growth.

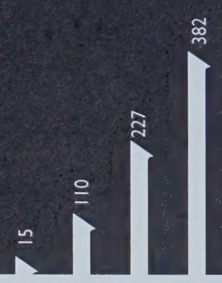
The plan for 1998 was to focus on increasing both oil and natural gas production, with the objective of achieving a 50/50 oil and gas production mix and increasing the natural gas exploration and development prospects in our portfolio.

- Overall daily production rose to an average of 382 BOE per day from 227 BOE per day, a 68 percent increase over 1997 with the production mix shifting to 60/40 oil/gas in 1998 from 70/30 oil/gas in 1997.
- Gas production grew from an average of 743 Mcf per day in 1997 to 1,388 Mcf per day in 1998, an 87 percent increase with an exit rate of 1.9 MMcf per day.
- Oil production went from 153 Bbl per day in 1997 to 243 Bbl per day in 1998, a 59 percent increase.
- 10 (6.9 net) wells, 1 (1 net) oil, 4 (2.7 net) gas and 5 (3.2 net) dry and abandoned wells formed the 1998 drilling program
- 50 percent success rate added 290,000 BOE of reserves and 270 BOE per day of initial production potential.
- New gas discoveries were made at Coronation and Cadogan and a new Bakken gas pool was encountered at Sibbald.
- Prospect generation continued in the West Central Alberta and Fairview Alberta exploration areas which resulted in the acquisition of 3,200 acres of Crown land and 30,720 acres of land evaluated under seismic review and drilling options.
- 121 kilometers of new seismic was shot and 28 kilometers was purchased to evaluate exploration prospects.
- Sibbald battery commissioned in early 1998 resulting in lower operating cost.
- Government approval to increase allowable production rates and production enhancement to Sibbald pool resulted in increased production levels.

PROJECT REVIEW

Energy North concentrates in three geographic areas, each with its own distinct attributes. The Eastern Alberta Region is Energy North's largest producing region with exploration and development success achieved at Sibbald, Coronation and Cadogan. The West Central Alberta region is primarily an oil and liquids-rich natural gas area with high reward prospect potential. Fairview Alberta is an area offering shallow to medium depth, multi-zone natural gas reserves which will be a focal point for the Company in 1999.

As part of Energy North's ability to adapt to the environment, the Company successfully sold low working interest properties for cash, or swapped for other strategic properties, without affecting cash flow. These interests were primarily at Cadogan, Hasting and Ingoldsby.



Production Profile 95 96 97 98
Average BOE/d

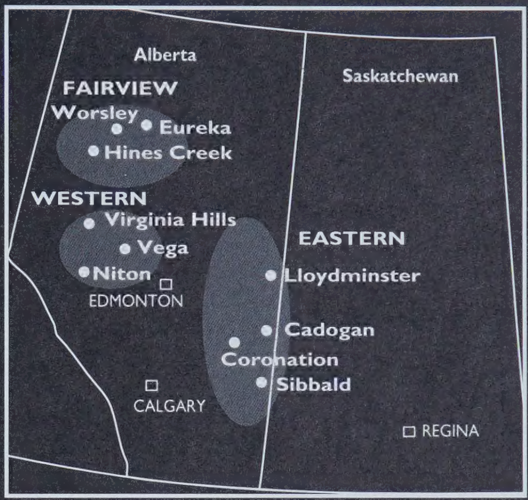
EASTERN ALBERTA REGION

SIBBALD

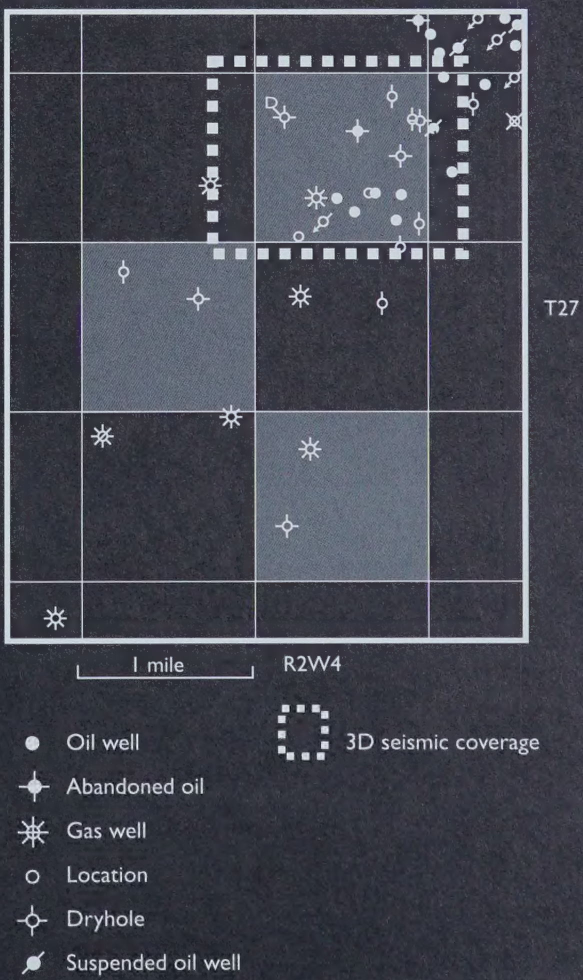
The 100 percent owned Sibbald property continued to be the Company's largest area of production during 1998, with production at the end of 1998 at 220 barrels per day of oil and 50 Mcf per day of gas. Two additional sections, at 100 percent interest, were obtained during the year through a farmin and a Crown sale which gives Energy North a 100 percent interest in 1,920 acres of land. This property is situated in eastern Alberta along a Cretaceous age sand trend where a number of very prolific oil pool discoveries were made over the past five years. The Energy North land immediately adjoins the Sibbald Upper Mannville "C" pool, which has produced a cumulative total of 5.0 million barrels of oil. This pool is under water flood, which is expected to result in the recovery of 26 percent of the oil in place, compared to 10 percent recovery under primary production practice.

Four wells were drilled on the property during 1998 resulting in one oil well, two deeper zone gas wells and one dry hole. Production enhancement to the existing wells was also undertaken. Progressive cavity screw pumps were installed on four of the producing wells to maximize production rates.

Production enhancement, a fully operational processing facility and initiation of a water flood program have both improved operating efficiency and lowered operating costs for the property.



SIBBALD



New production is being added at significantly lower operating costs. This has an immediate and long-term positive impact on net results.

OTHER PROJECTS

Energy North acquired a 50 percent working interest in 640 acres in the Cadogan area of eastern Alberta in late 1998. An old well bore was recompleted in two Cretaceous gas bearing formations and is producing in excess of 2 MMcf per day from one zone. When the second zone comes on stream in early 1999, the well is expected to produce 1.5 MMcf per day net to the Company. An exploratory play was also drilled on these lands during 1998 for a Cretaceous oil prospect but was unsuccessful.

The Coronation prospect that was developed in 1997 evolved into a meaningful gas project for the Company during 1998. A new gas well was drilled in January that has a production capability of 1.5 MMcf per day. New seismic was shot to follow up existing geological leads in the area and additional land was acquired at Crown sales in the latter half of the year. Energy North holds varying working interests in 4,320 acres of land on this prospect. Well tie-in and further drilling is expected during 1999.

FAIRVIEW ALBERTA REGION

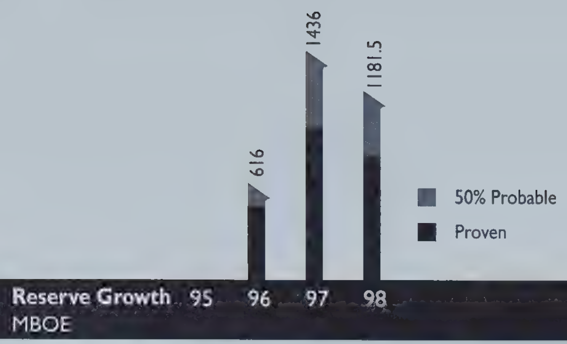
The Fairview area is a new gas exploration area where the Company spent considerable time and capital in 1998. Three highly prospective gas zones have been identified at depths of less than 1,000 meters. This type of play fits in with the corporate goal for lower risk projects, allowing for higher working interests and, therefore, larger rewards. A 500 kilometer, 2D seismic base was fully interpreted during 1998 to highgrade geologic leads. A joint venture was established with a major pension fund to buy land. The joint venture terms allow Energy North to share equally in the land interests by investing in shooting seismic and drilling wells. This gives the Company the most effective use of tax dollars and exposure to a greater number of prospects. At the end of 1998, Energy North had amassed interests in 5,760 gross acres of lands and has an additional 19,200 acres of land under option. The Company shot 62 kilometers of new seismic and purchased an additional 11 kilometers over its land holdings in late 1998. The data will be interpreted in early 1999 and drilling should follow later in the year. The Fairview Region has the potential to be a large growth area for the Company in natural gas production and reserves.

WEST CENTRAL ALBERTA REGION

The West Central area is located west of Edmonton in the Whitecourt area in a region characterized as multi zone, medium depth drilling and prospective for liquids-rich natural gas. Underutilized gas processing facilities and pipelines allow new gas discoveries to be brought onstream quickly. Geological mapping and seismic modeling continued during 1998 and several farmin offers were made at year end. A number of parcels of land were bid on at Crown land sales unsuccessfully. The Company undertook a 36 kilometer seismic program over Crown lands to follow up on geologic leads and a final interpretation, including drilling locations, is expected early in 1999. A series of large farmins are being contemplated with major companies evaluating expiring lands during 1999.

FAIRVIEW

- Option lands
- Working interest lands
- Oil well
- Abandoned oil
- Gas well
- Location
- Dryhole
- Suspended oil well



RESERVES

During 1998, the Company concentrated on increasing its natural gas reserve base, and this is evident in the new reserve values. Gas reserves increased on a proven plus 50 percent probable basis from 2.422 billion cubic feet to 2.957 billion cubic feet. This is a 22 percent increase over 1997. The change of focus away from oil exploration along with price related reserve revisions resulted in oil and natural gas liquids reserves decreasing from 1.1 million barrels to 0.9 million barrels on a proven plus 50 percent probable basis. On a barrel of oil equivalent basis, using a 10 Mcf to one barrel of oil ratio and proven plus 50 percent of probable reserves, and adding back the 1998 production, the Company's reserves decreased 18 percent. The reserve value however increased slightly over 1997 with a proven plus 50 percent probable value of $6,553,500 compared to $6,419,300.

RESERVES

	Crude Oil & NGLs (Mbls)	Natural Gas (MMcf)	Equivalent (MBOE)
Proven Producing	466.0	1,452.3	611.2
Proven Non Producing	92.4	843.5	176.8
Total Proven	558.4	2,295.8	788.0
Probable	654.8	1,323.3	787.1
Proven Plus Probable	1,213.2	3,619.1	1,575.1
Proven Plus 50% Probable	885.8	2,957.5	1,181.5

RESERVES VALUE

	Undiscounted	Net Present Value Discounted 10%	15%	20%
Present Value of Future Cash Flows				
(Before Taxes thousand dollars)				
Proven Producing	5,392	4,049	3,627	3,294
Proven Non Producing	1,779	1,255	1,087	958
Total Proven	7,171	5,304	4,714	4,252
Probable	7,776	4,564	3,678	3,042
Proven Plus Probable	14,947	9,868	8,392	7,294
Proven Plus 50% Probable	11,059	7,586	6,553	5,773

RESERVE LIFE INDEX

at December 31, 1998

	January-99 Production	Total Proven (Years)
Crude Oil & NGLs (Bbls per day)	260	5.88
Natural Gas (MMcf per day)	1.37	4.59
Equivalent (BOE per day)	397	5.43

1998 DRILLING ACTIVITY

	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	–	–	1.00	1.00	1.00	1.00
Natural Gas	2.00	2.00	2.00	0.70	4.00	2.70
Dry & Abandoned	4.00	3.20	1.00	0.03	5.00	3.23
Total	6.00	5.20	4.00	1.73	10.00	6.93

ACQUISITION AND FINDING COSTS

1998 was a year the Company spent capital on initiating and developing natural gas prospects for future years with less spent on drilling. Developing prospects to the drilling stage requires capital to be spent on front end geophysics, land and other costs which builds in a lead-time prior to generating drillable prospects. For smaller companies, the prospect developing activities can occur in one year while the drilling occurs in another. Therefore, one year's finding costs can often be skewed depending on the stage of the cycle while another year might yield disproportionately high reserve additions that reflect more than one year's investment. Based on proven plus 50 percent of probable reserves, the 1998 reserve addition costs were $8.04 per barrel of oil equivalent. The more meaningful three year Company average is $5.44 per barrel, which is well below industry averages.

ACQUISITION AND FINDING COSTS

	1998	1997	1996	3 Year Average
Drilling and Development Expense	**$3,642,765**	$4,809,980	$1,841,625	$3,431,457
Acquisition and Disposals	**(187,888)**	(243,338)	378,956	(17,423)
Total	**$3,454,877**	$4,566,642	$2,220,581	$3,414,033
Reserve Additions (BOE)	**290,000**	819,900	508,350	539,417
Production (1998)	**139,486**	83,081	40,212	87,593
Total	**429,486**	902,981	548,562	627,010
Finding and Acquisition Costs per BOE	**$8.04**	$5.06	$4.05	$5.44

NET ASSET VALUE

	Net Present Value Discounted			
	10% P + 1/2 P	10% P + P	15% P + 1/2 P	15% P + P
Reserves	$ 7,585,400	$ 9,867,300	$ 6,553,500	$ 8,392,700
Undeveloped Land	275,000	275,000	275,000	275,000
Working Capital and Debt	(4,033,068)	(4,033,068)	(4,033,068)	(4,033,068)
Cash Deposits	–	–	–	–
Fixed Assets	3,746,137	3,746,137	3,746,137	3,746,137
Exercise of Stock Options	1,057,500	1,057,500	1,057,500	1,057,500
Total	$ 8,630,969	$ 10,912,869	$ 7,599,069	$ 9,438,269
Fully Diluted Common Shares	31,570,469	31,570,469	31,570,469	31,570,469
NAV per Share Fully Diluted	$ 0.27	$ 0.35	$ 0.24	$ 0.30

MANAGEMENT DISCUSSION AND ANALYSIS

The benefits of establishing and following a clear strategic plan were evident in 1998 when Energy North continued its growth pattern against the backdrop of a difficult environment. Revenue increased to $1.86 million for the year, a 40 percent increase over 1997. Cash flow remained positive at $233,463, a decrease from $294,295 in 1997 reflecting low oil prices. Net loss, after depreciation and depletion and the inclusion of a $1,274,342 ceiling test write down, was recorded at $2,706,515.

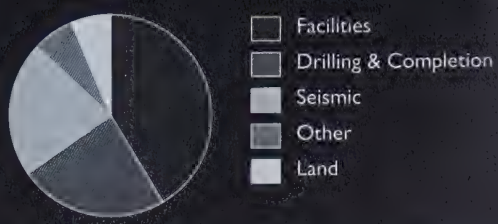
Just as important as achieving growth, Energy North continued to put in place the elements needed to take the Company to the level of a solid junior oil and gas company with multiple growth opportunities, and the expertise and financial position to continue its performance.

CAPITAL EXPENDITURES AND RESOURCES

Energy North's capital spending program was $3,588,187 in 1998, a reflection of the quality opportunities the Company had available. Two features of 1998 reinvestment were the shift to natural gas and the emphasis on reinvesting to improve efficiency. As the year unfolded, natural gas was clearly the more economic commodity to produce and sell. In response, Energy North reviewed its portfolio and adjusted the program, demonstrating its flexibility to give higher priority to natural gas prospects. The approach was successful and resulted in significant additions of natural gas production and reserves. The pursuit of lower operating costs was achieved with a major processing facility project completed mid-year 1998. In the fourth quarter of 1997 the Company began the construction of an oil processing facility at Sibbald. The total cost of the facility was $2.2 million which represents 56 percent of the total amount of money invested in property plant and equipment in the history of the Company. It also represents the major portion of our current debt.

Prior to construction of the facility, production of oil and water was trucked by tanker to a nearby oil processing battery operated by an industry competitor. The cost to the Company of having oil separated from produced water, salt water disposal charges and fluid trucking fees were forecast to be between $2.5 and $3.0 million per year. The cost estimate to handle fluid at our own facility was estimated to be $500,000 annually. Our cost/benefit analysis showed we could payout the capital cost of our own facility in about one year. This facility was completed in mid 1998 and optimized by year end.

We have benefited tremendously from this investment by being able to create positive cash flow even with the low prices seen in 1998. We are creating income by handling produced water from other operators in the area and when this water is injected along with our own we are more than replacing reservoir voidage and thereby creating a secondary recovery process by repressuring our reservoir. This waterflood allowed us to apply for a Good Production Practice Order from the Alberta Energy and Utilities Board. With this order in place we are no longer limited to allowable production rates and are now maximizing production. The long term effect of this process is that we will recover up to 25 percent of the oil in place rather than the eight percent expected from primary production methods.



Capital Expenditures

An objective of establishing a line of credit to provide flexibility for decision making was identified in 1997 and a revolving line of credit of $3.1 million was established early in 1998. In the fourth quarter of 1998, a further credit facility of $1.0 million was negotiated and collateralized by our mid stream assets at Sibbald. Both of these credit facilities are with the Alberta Treasury Branch.

For 1999 our capital program will keep pace with cash flow which is anticipated to be approximately $1.0 million using a commodity price forecast of US $15.00 per barrel for oil and CDN $2.50 per thousand cubic feet of gas. Higher commodity prices, increases in production levels and non producing property sales may generate additional funds which would enhance our capital spending ability.

In the current environment we will look for excellent value in oil properties, anticipating that adding oil production and reserves at low cost will have a positive long-term impact on the Company. Our natural gas focus will be in operated areas where successful exploration will allow us to control the pace of development of reserves and infrastructure and keep processing fees and transportation costs minimized.

SOURCE AND USE OF FUNDS

CAPITAL RESOURCES

	1998	1997	1996
Cash Flow	$ **233,463**	$ 294,295	$ 202,211
Working Capital	**(1,493,399)**	(441,221)	1,410,439
Cash Deposits	–	715,000	–
Bank Facility	**4,100,000**	1,300,000	–
Warrants	–	1,666,667	1,666,667
Equity	**3,386,195**	7,044,831	4,098,796
Debt	**(2,539,669)**	–	–
Total	$ **3,686,590**	$ 10,579,572	$ 7,378,113

CAPITAL SPENDING

	1998	1997	1996
Land	$ **234,517**	$ 119,279	$ 279,314
Seismic	**822,042**	545,330	371,839
Drilling & Completion	**899,191**	1,895,836	887,538
Production Facilities	**1,566,169**	2,038,084	319,860
Capital Assets	**100,847**	194,451	83,032
Property Acquisitions	**20,000**	20,000	438,365
Property Dispositions	**(187,889)**	(246,338)	(108,684)
Other	**133,310**	–	–
Total	$ **3,588,187**	$ 4,566,642	$ 2,271,264

Production growth was a highlight of 1998 with a 68 percent increase to an average of 382 barrels of oil equivalent per day compared to 227 barrels of oil equivalent per day in 1997.

Production Profile 95 96 97 98
Average BOE/d

PRODUCTION REVENUE AND PRICING

Production growth was a highlight of 1998 with a 68 percent increase to an average of 382 barrels of oil equivalent (BOE) per day compared to 227 BOE per day in 1997. The average price received fell to $14.59 per BOE, representing a drop of 15 percent compared to 1997. As a result of increased production and after the negative effect of lower prices, revenue of $1.86 million was realized in 1998, an increase of 40 percent.

While crude oil continues to be the most significant portion of Energy North's production base, average natural gas volumes increased to 1.4 million cubic feet per day, up 87 percent over 1997. Generally, the strategic advantage of emphasizing crude oil over natural gas was the shorter lead time required for crude oil between drilling and selling the product. However, in 1998 the economics clearly favored natural gas. While Energy North responded by placing a priority on immediate opportunities in natural gas, management still believes, over the long-term, the strategic advantage lies with crude oil. Oil prices plummeted to average $10.94 per barrel for the year, a precipitous decline of 36 percent from 1997 and only half that seen at the end of 1996. For 1998, natural gas prices were $2.06 per thousand cubic feet representing an increase of 10 percent over 1997.

Energy North's approach to marketing has not changed compared to 1997. The Company's oil production is sold through local markets and for the most part is trucked from centralized production facilities to pipeline connected regional sales terminals. Gas production is sold approximately 25 percent into the Alberta Spot market and 75 percent into a variety of blended netback contracts through aggregators.

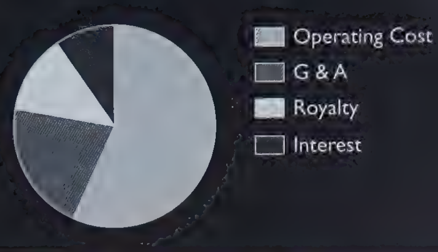
ROYALTIES

In 1998 royalties net of the Alberta Royalty Tax Credit were paid in the amount of $232,768. The increase of 28% over 1997 levels directly corresponds to increased production. As a percentage of revenue, the 11.4 percent level of royalty was on track with what was anticipated with lower commodity pricing.

FLOW OF FUNDS PER BOE

Funds flow in 1998 was $233,463, a decrease of 21 percent from the $294,295 in the year prior. The accompanying chart clearly demonstrates on a year over year basis the detrimental affect low oil prices have on cash flow. During 1998, while cash flow was limited, we demonstrated our ability to withstand the variance in commodity pricing which is one of the major cyclical risk factors facing our business.

Although prices are the most significant factor, funds flow can also be improved by internal activities such as lowering operating costs. Through field activities carried out in 1998, Energy North has improved its operating costs which will have an impact on our bottom line. Energy North will continue to focus on funds flow per BOE as perhaps the most important measure of a Company's efficiency. As the Company's production base expands, the operating and administrative costs per unit will decrease, ensuring that funds flow per unit are optimized.



Costs
per BOE

CASH FLOW ANALYSIS

		1998		1997		1996
Oil and Gas Revenue	$	**14.59**	$	17.96	$	20.77
Royalties(net of ARTC)		**(1.67)**		(2.19)		(2.44)
Production Cost		**(7.57)**		(8.12)		(7.75)
Netback from operations		**5.35**		7.65		10.58
General and Administrative		**(2.81)**		(4.33)		(5.59)
Interest		**(1.29)**		–		–
Cash Flow per BOE	$	**1.25**	$	3.32	$	4.99

GENERAL AND ADMINISTRATIVE EXPENSES

In 1998, operating and general and administrative costs decreased to average $2.81 per BOE, a decrease of 35 percent from the $4.33 per BOE in the year prior. In 1998, a separate expense was noted for an unsuccessful business takeover. Although merger and acquisition deals attempted in 1998 were not concluded, merger and acquisition activity remains a part of our business and opportunities continue to be reviewed on a regular basis.

PRODUCTION EXPENSES

Production expenses in 1998 decreased seven percent to $7.57 per BOE. We continue to make operational improvements designed to decrease our production costs and as new lower cost production is added we have been disposing of high operating cost properties. With startup problems out of the way and increased volumes being produced, we report operating costs at our largest oil production facility at Sibbald were $6.00 per barrel in 1998 and are anticipated to drop to $4.50 per barrel in 1999.

NETBACKS

	1998		1997		1996	
	Crude Oil & Liquids (Bbls)	**Natural Gas (Mcf)**	Crude Oil & Liquids (Bbls)	Natural Gas (Mcf)	Crude Oil & Liquids (Bbls)	Natural Gas (Mcf)
Production						
Daily	**243**	**1388**	153	743	69	411
Total	**88,792**	**506,630**	55,956	271,236	25,154	150,578
Revenues	**$ 971,212**	**$ 1,043,505**	$ 952,371	$ 510,955	$ 601,655	$ 233,619
Royalties(net of ARTC)	**109,076**	**123,656**	98,984	82,820	85,995	12,228
Production cost	**637,548**	**417,554**	504,173	171,893	196,392	115,341
Operating Netback	**$ 224,588**	**$ 502,295**	$ 349,214	$ 256,242	$ 319,268	$ 106,050

The benefits of establishing and following a clear strategic plan were evident in 1998. Maintenance of a strong balance sheet, investment in advanced exploration technology and a balanced production portfolio are the fundamentals of the corporate strategy.

DEPLETION AND DEPRECIATION

Depletion and depreciation expenses, under the full cost accounting method, were $2,806,668 compared to $483,946 in 1997. Included in this figure is a $1,274,342 ceiling test write down.

INCOME TAXES & TAX POOLS

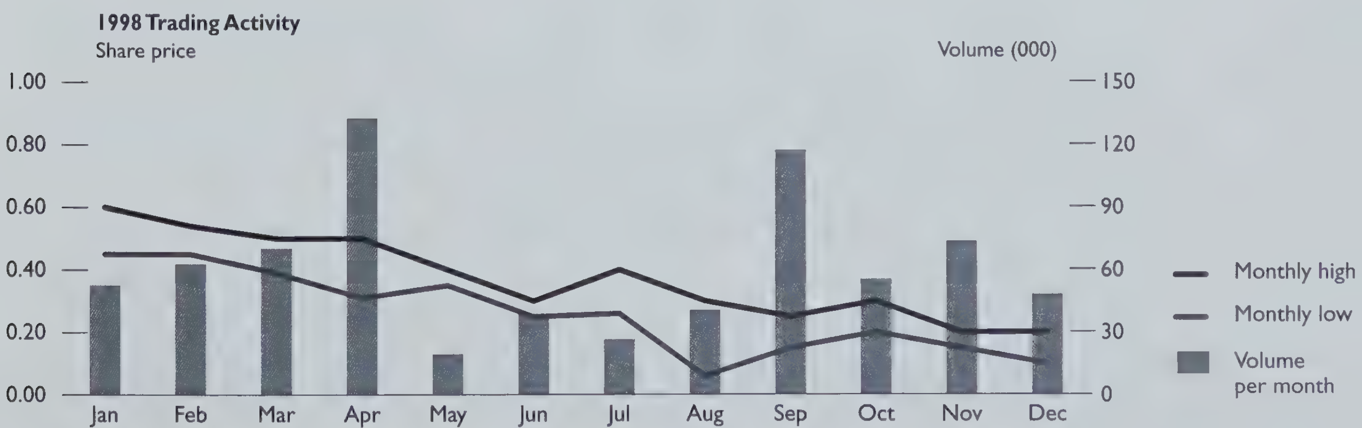
The Company's high level of activity in 1998 had the benefit of generating substantial tax pools with which to offset future income tax obligations. A total of $6.8 million in tax pools was available at the end of 1998, up from $5.8 million at the end of 1997. In addition, there are $277,000 available in non capital loss carry forwards.

TYPE OF POOLS

	1998	1997	1996
Canadian Exploration Expense	**$ 702,893**	$ 821,000	$ 265,852
Canadian Development Expense	**1,269,113**	1,206,000	303,593
COGPE	**730,043**	621,000	775,249
Loss Carry Forwards	**277,000**	100,000	190,334
Class 41	**3,938,513**	2,439,000	430,169
Other	**245,631**	646,000	92,933
Total	**$ 7,163,193**	$ 5,833,000	$ 2,058,130

SHARE TRADING PROFILE

Market dynamics through 1998 have been very hard on the oil and gas production sector. Negative investor sentiment is expected to continue until sustained commodity price increases occur. Energy North's trading levels reflected this trend and showed relatively low liquidity with a total of 736,649 shares traded through the year. The stock traded in a range between $0.05 and $0.60. The low side of the trading range represents an undervalued opportunity for the astute investor who follows trends of increasing production levels and strong fundamentals.



The negative outlook for oil pricing and cash flow was widespread. We do not expect a significant change to this attitude until oil prices recover to at least the US $15 per barrel range and clear evidence of demand for natural gas supports a $2.50 per Mcf price.

BUSINESS RISKS

Exploration, development, production, acquisition and marketing of crude oil and natural gas is subject to a number of business risks. Commodity pricing fluctuations affect the ability to be profitable, the ability to generate capital for reinvestment, the comfort financial institutions have in lending money to production companies and the interest level of the market which in turn affects a company's value and its ability to raise capital. In 1998 and early 1999, the low crude oil price is showing an impact in all of these risk areas. The companies who maintain a sound financial condition so they can maintain some level of activity, will be able to withstand the commodity price pressure. Energy North is adhering to its strategies which are aimed at maintaining a sound financial condition in order to be a company that comes through the downturn in the cycle and is positioned to reap the benefit of a strong growth profile which will come from better prices and lower operating costs. Dry exploration and development wells are risks that all companies face. Mitigating the risk of not encountering economic quantities of oil or gas reserves is achieved through the prudent application of available technology and by building on experience with specific geographic areas and geologic ages. Energy North is a strong proponent of making use of available technology before making major capital investments and is also focusing its activities in areas where experience is additive and the results can be improved.

Production infrastructure failures and natural gas transportation curtailments are the risks faced in getting a product to market. Energy North invests in its own equipment, where working interests warrant, and works with what management believes are competent partners and marketers to manage these risks. Changing government fiscal policy and regulations all pose a threat. By remaining within Alberta, Energy North is in the province that is most affected by the economic well being of the oil and gas production sector. The government policies show the importance of this relationship. Alberta continues to provide a favorable operating environment.

UNCERTAINTY DUE TO YEAR 2000 ISSUE

The year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at December 31, 1998, the Company had identified and replaced computers and software in order to be Year 2000 compliant. The assessment of the readiness of third parties is ongoing, however, it is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to partners, suppliers or third parties will be fully resolved.

MANAGEMENT'S REPORT

The accompanying financial statements of Energy North Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles and where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Financial statements are not precise since they include certain amounts based on estimates and judgments and where applicable such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls, consistent with reasonable cost, which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee which includes two non-management directors.

The financial statements have been audited by Buchanan Barry & Co., the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Buchanan Barry & Co. has full and free access to the Audit Committee.

Morton H. Wyne

Richard N. Edgar
President and Chief Executive Officer

Morton H. Wyne
Director

February 5, 1999

AUDITORS' REPORT

To the Shareholders of

Energy North Inc.

We have audited the balance sheets of Energy North Inc. as at December 31, 1998 and December 31, 1997 and the statements of loss and deficit and statements of cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in cash flow for the years then ended in accordance with generally accepted accounting principles.

Buchanan Barry & Co

Calgary, Alberta
February 5, 1999

Buchanan, Barry & Co.
Chartered Accountants

BALANCE SHEETS

As at December 31	1998	1997
ASSETS		
Current		
Cash	$ –	$ 1,560,349
Accounts receivable	**434,113**	735,675
Prepaid expenses	**84,594**	22,219
	518,707	2,318,243
Cash deposits (note 3)	–	715,000
Property, plant and equipment (note 4)	**7,550,258**	6,830,068
	$ 8,068,965	$ 9,863,311
LIABILITIES		
Current		
Bank loan (note 5)	**$ 2,539,669**	$ –
Accounts payable and accrued liabilities	**2,012,106**	2,759,464
	4,551,775	2,759,464
Provision for future site restoration	**130,995**	59,016
	4,682,770	2,818,480
SHAREHOLDERS' EQUITY		
Share capital (note 6)	**6,303,041**	7,255,162
Deficit	**(2,916,846)**	(210,331)
	3,386,195	7,044,831
	$ 8,068,965	$ 9,863,311

Approved by the Board:

Morton H. Wyne

R.N. Edgar
Director

M.H.Wyne
Director

STATEMENTS OF LOSS AND DEFICIT

Year ended December 31	1998	1997
Revenue		
Petroleum and natural gas	**$ 2,034,206**	$ 1,492,143
Royalties (net of ARTC)	**(232,768)**	(181,803)
Other	**59,247**	18,955
	1,860,685	1,329,295
Operating expenses		
Depreciation and depletion	**2,806,668**	483,946
Production expenses	**1,055,085**	674,932
General and administrative	**392,544**	360,068
Interest	**179,593**	–
	4,433,890	1,518,946
Loss from operations	**2,573,205**	(189,651)
Other expenses		
Unsuccessful business takeover	**133,310**	–
Loss before income taxes	**(2,706,515)**	(189,651)
Income taxes – current	**–**	–
Net loss	**(2,706,515)**	(189,651)
Deficit, beginning of year	**(210,331)**	(20,680)
Deficit, end of year	**$ (2,916,846)**	$ (210,331)
Loss per share (note 8)	**$ (.10)**	$ (.01)

STATEMENTS OF CASH FLOW

Year ended December 31	1998	1997
Operating activities		
Net loss	**$ (2,706,515)**	$ (189,651)
Adjustments to operations not involving cash		
Unsuccessful business takeover	**133,310**	–
Depreciation and depletion	**2,806,668**	483,946
	233,463	294,295
Change in non-cash working capital items		
Accounts receivable	**301,562**	(422,821)
Prepaid expenses	**(62,377)**	(14,216)
Accounts payable and accrued liabilities	**(747,358)**	2,303,651
	(508,173)	1,866,614
	(274,710)	2,160,909
Investing activities		
Acquisition of production equipment	**(1,563,721)**	(2,024,800)
Acquisition of resource properties	**(1,978,197)**	(2,590,728)
Acquisition of capital assets	**(100,847)**	(194,452)
Unsuccessful business takeover	**(133,310)**	–
Proceeds on disposal of resource properties	**187,888**	243,338
	(3,588,187)	(4,566,642)
Financing activities		
Issue of flow-through warrants	–	3,290,000
Issue of special warrants	–	715,000
Proceeds on short term debt	**2,539,669**	–
Share issue costs	**(42,365)**	(336,893)
Tax effect on flow through shares	**(909,756)**	(532,421)
	1,587,548	3,135,686
Net change in cash	**(2,275,349)**	729,953
Cash, beginning of year	**2,275,349**	1,545,396
Cash, end of year	$ –	$ 2,275,349
Cash is comprised of:		
Cash	$ –	$ 1,560,349
Cash deposits	–	715,000
Total cash	$ –	$ 2,275,349

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 1998 and 1997

1. GENERAL

The Company was incorporated on August 1, 1995 under the Alberta Business Corporations Act as 662678 Alberta Ltd. On November 21, 1995 the Company changed its name to Richco Exploration Ltd. by a certificate of amendment under the Alberta Business Corporations Act.

On January 1, 1996 the Company acquired all of the issued and outstanding shares of North Country Resources Ltd. (a private corporation). On March 15, 1996, Richco Exploration Ltd. and North Country Resources Ltd. were amalgamated.

As a result of a Special Meeting of the shareholders of Richco Exploration Ltd. and Energy North Inc. (a public company), the companies agreed to amalgamate on September 1, 1996. The amalgamation was accounted for as a reverse take over by Richco Exploration Ltd. The new company continued under the name of Energy North Inc.

On January 1, 1997 Energy North Inc. amalgamated with Arcola Energy Ltd., a wholly owned subsidiary company.

2. ACCOUNTING POLICIES

Property, Plant and Equipment

Petroleum and Natural Gas Properties and Production Equipment

The Company follows the full-cost method of accounting for oil and gas activities whereby all costs associated with the acquisition of, the exploration for, and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, equipment costs, and general and administrative costs directly related to the exploration and development activities. Other general and administrative costs and interest charges are expensed. The carrying value, based on a ceiling test calculation, is limited to a recoverable amount as determined by estimating the present value of future net revenue from proven properties based on current prices, costs and the value of unproven properties at the lower of cost or net realizable value.

Amortization of these costs is calculated on the unit of production method based on estimated proven reserves as determined by independent engineers. For purposes of depreciation and depletion calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content. The costs of significant unevaluated properties are excluded from the depletion and depreciation base.

Proceeds from disposals of properties are normally applied as a reduction of the costs of the remaining assets unless the disposal represents a significant portion of the Company's total reserves, in which case a gain or loss on disposal is recorded.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Furniture and Fixtures and Leasehold Improvements

These assets are recorded at cost. Depreciation is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Furniture and fixtures	- 20 percent declining balance
Leasehold improvements	- 5 years straight-line
Computer equipment	- 30 percent declining balance
Computer software	- 50 percent straight-line

Acquisitions during the period are depreciated at one-half the normal rate.

Future Site Restoration and Abandonment

The Company estimates its future site restoration and abandonment costs for its petroleum and natural gas wells. The costs are management's best estimates of the future site restoration and abandonment costs based on current legislation and industry practices. Total estimated costs are being provided for on an unit of production basis. The annual provision is included in depreciation and depletion and actual site restoration and abandonment costs are charged to the provision account as incurred.

Flow-through Shares

The resource expenditure deductions related to exploration and development activities, funded by flow-through share arrangements, are renounced to investors in accordance with current tax legislation. Property, plant and equipment and share capital are reduced by the estimated income tax cost of the renounced deductions as the expenditures are incurred.

Measurement Uncertainty

The amounts recorded for depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of any changes in such estimates on the financial statements of future periods could be material.

3. CASH DEPOSITS

The cash deposit was a term deposit held in trust pursuant to the non-flow through special warrants. These warrants were fully exercised in 1998.

4. PROPERTY, PLANT AND EQUIPMENT

December 31, 1998	Cost	Accumulated depreciation	Net book value
Furniture and fixtures	**$ 307,974**	**$ 153,690**	**$ 154,284**
Leasehold improvements	**70,972**	**17,528**	**53,444**
Petroleum and natural gas properties	**6,536,870**	**1,971,170**	**4,565,700**
Production equipment	**3,993,872**	**1,217,042**	**2,776,830**
	$ 10,909,688	**$ 3,359,430**	**$ 7,550,258**

December 31, 1997	Cost	Accumulated depreciation	Net book value
Furniture and fixtures	$ 240,667	$ 79,473	$ 161,194
Leasehold improvements	37,431	8,153	29,278
Petroleum and natural gas properties	4,700,613	407,318	4,293,295
Production equipment	2,491,679	145,378	2,346,301
	$ 7,470,390	$ 640,322	$ 6,830,068

As at December 31, 1998, costs of $1,278,263 (1997 - $2,626,781) for unproven properties have been excluded from the depletion calculation. The provision for future site restoration costs is recorded in the statement of loss and deficit as a component of depreciation and depletion and on the balance sheet as a long-term liability. At December 31, 1998 the remaining estimated future site restoration costs to be accrued over the life of the proved reserves are $427,367 (1997 - 473,846).

Under the full cost method of accounting a ceiling test is required. The ceiling test calculation at December 31, 1998 used the Company's year end selling price of $11.05 per barrel for oil and $2.30 per Mcf for gas resulting in a $1,274,342 of additional depletion charges for the year.

5. LINE OF CREDIT

The Company has a $3,100,000 revolving production loan facility with the Alberta Treasury Branch. Interest is calculated on the daily outstanding principal amount at prime plus 0.75 percent per annum, with interest payable monthly. The facility is secured by a $5,000,000 demand debenture providing a floating charge on the Company's assets, a general security agreement, and a fixed charge against certain properties located at Gilby, Knopcik and Lloydminster.

On January 12, 1999, the Company received approval for an additional $1,000,000 term loan from the Alberta Treasury Branch as a separate facility. Interest will be calculated on the daily outstanding principal amount at prime plus 1.5 percent. Monthly payments of $20,330 will be required on this facility. The term loan is secured by the Sibbald battery.

6. SHARE CAPITAL

Authorized: Unlimited number of common shares

Preferred non-voting shares issuable in series with designation, rights, privileges, restrictions and conditions to be fixed by the Board of Directors before issue of preferred shares.

Issued and outstanding

Common Shares

	Number of Common Shares	Amount
Balance December 31, 1996	23,520,469	$ 4,119,476
Tax benefits renounced to investors	–	(341,343)
Share issue costs	–	(3,322)
Balance December 31, 1997	23,520,469	3,774,811
Shares issued for special warrants	1,100,000	715,000
Shares issued for flow through warrants	4,700,000	3,290,000
Warrant issue costs	–	(333,571)
Tax effect on flow through warrants	–	(1,100,834)
Share issue costs	–	(42,365)
Balance December 31, 1998	29,320,469	6,303,041
Special Warrants		
Issued flow through special warrants		3,290,000
Issued non flow through special warrants		715,000
Tax benefits renounced to investors		(191,078)
Warrant issue costs		(333,571)
Balance December 31, 1997		3,480,351
Special warrants exercised		(3,290,000)
Flow through warrants exercised		(715,000)
Warrant issue costs to share capital		333,571
Tax benefits to investors to share capital		191,078
Balance December 31, 1998		–
Total share capital		$ 6,303,041

Stock Options

Under an incentive stock option plan the Company has granted 2,250,000 stock options to directors and consultants of the Company. The stock options are exercisable at prices ranging from $0.20 to $0.65 and will expire at various times until October 14, 2002. The Company has reserved 2,250,000 common shares under the stock option plan.

Warrants

On October 16, 1996, the Company issued 4,166,667 units consisting of one common share and one warrant at $0.30 per unit. Each warrant may be exercised for one common share at a price of $0.40 per common share with an expiry date of October 16, 1998. On October 16, 1998, all of these warrants expired.

Special Warrants

On November 18, 1997, the Company issued 4,700,000 flow through special warrants at a price of $0.70 and 1,100,000 non-flow through special warrants at a price of $0.65. Each special warrant may be exercised, without payment of any additional consideration to acquire one common share on or prior to November 18, 1998. On March 27, 1998, all of the flow through special warrants and the non-flow through special warrants were exercised. As at December 31, 1998, the Company has renounced all of these resource expenditures.

Common Share Amounts

The calculation of net loss per share is based on the weighted average number of common shares outstanding during the year ended December 31, 1998 of 27,954,088 (1997 – 23,520,469).

7. INCOME TAXES

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian Federal and Provincial income tax rate of approximately 44.6 percent to the loss before income taxes.

	1998	1997
Computed expected tax (recovery)	**$ (1,207,647)**	$ (84,622)
Increase (decrease) resulting from:		
Non-deductible crown charges	**117,789**	97,447
Alberta royalty tax credit	**(84,280)**	(56,905)
Federal resource allowance	**(1,888)**	(53,477)
Depletion with no tax base	**233,392**	66,736
Other	**7,233**	6,574
Non-capital losses carried forward	**935,401**	24,247
Income tax expense	**$ –**	$ –

Included in petroleum and natural gas properties are assets with a net book value of $2,890,985 (1997 - $1,604,871) which have no cost for income tax purposes.

The Company has approximately $277,000 of non-capital loss carry forwards which may be carried forward to offset taxable earnings otherwise subject to income taxes. These losses expire as follows:

Year		
2003	$	71,000
2004		29,000
2005		177,000
	$	277,000

The Company has approximately $7,163,000 of income tax pools available to offset future taxable income.

8. RELATED PARTY TRANSACTIONS

During the year, certain directors and officers were paid $320,473 (1997 -$195,962) for consulting fees. During the year, legal fees of $77,741 (1997 - $81,340) were paid to a legal firm in which a director is an active partner.

9. LEASE COMMITMENT

On September 30, 1998, the Company entered into a lease agreement for office premises ending on January 31, 2003. The minimum lease payments required under the lease are as follows:

1999	$	67,197
2000		69,566
2001		72,151
2002		72,366
2003		6,030
	$	287,310

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises as many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 is processed including systems failures or interruptions. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures, which could affect an entity's ability to conduct normal business operations. While the Company has addressed the Year 2000 Issue, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

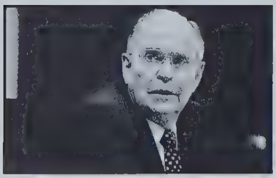
MANAGEMENT AND DIRECTORS

Richard N. Edgar, B.Sc., P.Geol., *President and Chief Executive Officer*
Mr. Edgar graduated from the University of Alberta at Edmonton in 1972 and spent his early career working in western Canada and internationally for major exploration companies. He has also held instrumental positions with junior and intermediate companies, most notably as Vice President, Exploration for Chauvco Resources Limited and Vice President and Director for Harbour Petroleum Company Limited.

Bruce G. Edgar, B.Sc., P.Geol. , *Vice President, Exploration*
Mr. Edgar is also a graduate of University of Alberta at Edmonton and since 1977 has worked at a number of large and intermediate companies where he has gathered extensive experience, primarily in western Canada but also in South and Central Americas.

William E. Patterson, B.A., C.A., *Vice President, Finance and Chief Financial Officer*
A graduate from the University of Calgary in 1968, Mr. Patterson obtained his Chartered Accountancy designation in 1973. His career has taken him through various roles with a major bank, Revenue Canada and as a taxation specialist for a multi-national corporation and a major accounting firm.

R. Graeme Dales, B.A., M.Sc., *Director*
Mr. Dales has held a number of geologist, exploration manager and vice president of exploration roles for small, entrepreneurial oil and gas companies through a 21 year career.



Francis. E. Lefaivre, *Director*
For 26 years until his retirement in 1977, Mr. Lefaivre was with Shell Canada Limited and from 1963 to 1977 was responsible for gas liquids marketing, trading and transportation. He has been President of Lefaivre Resources Limited, a private oil and gas company since 1977.

R. Gregory Powers, Q.C., *Director*
A partner in the Donahue Powers Wells law firm since 1993, Mr. Powers has specialized in corporate finance, securities and acquisitions and served the oil and gas industry exclusively since 1970.

Morton H. Wyne, *Director*
Mr. Wyne is Chief Executive Officer of Financial Management Inc., a private insurance brokerage corporation.

ENERGY NORTH INC.

WHY ENI?

- Leading edge technology in prospect development
- Strong financial stewardship
- Committed and experienced management
- Solid foundation to expand the asset base
- Large inventory of exploration and development prospects for both oil and natural gas

MISSION STATEMENT

Energy North has developed a corporate strategy that we have presented to shareholders in each of our last two annual reports. We continue to adhere to these strategies because we believe they will enhance shareholder value by creating growth opportunities. Our strategies remain the cornerstone of our approach to the business:

- Grow through drilling
- Concentration on technology-driven, moderate risk projects
- Focus on specific play types
- High priority placed on rapid cash flow generation
- Management of financial risk through appropriate working interests
- Balance of low risk development plays with high impact exploration prospects

1998 OBJECTIVES	1998 RESULTS	KEY INFLUENCES
Add production at less than $10,000 per BOE per day	$12,825 per BOE per day	High service costs held through first half 1998 Expect 1999 will be more cost efficient
Increase production base by 100 percent per year until 2000	68 percent production increase	Activity reduced by capital constraints Significant investment made in new prospect development and seismic
Increase reserve base by 100 percent per year until 2000	22 percent gas reserve increase decreased oil reserves	Reduced capital investment and price related reserve revisions; replaced production
Achieve an equal balance of oil and gas production	60 percent oil, 40 percent gas	Increased natural gas component by focusing on natural gas exploration and development

1998 AREAS OF ACTIVITY

For further information please contact:

Richard N. Edgar, President & CEO

Bruce G. Edgar, Vice President, Exploration

William E. Patterson, Vice-President, Finance & CFO

ENERGY NORTH INC.

905, 500 - 4 Avenue SW

Calgary, Alberta T2P 2V6

tel 403 269 1053

fax 403 269 1790

email energy@energynorthinc.com

website http://www.energynorthinc.com

CORPORATE INFORMATION

DIRECTORS

Richard N. Edgar*
President, CEO & *Director*

R. Graeme Dales
Secretary-Treasurer & Director

Francis E. Lefaivre
Director

R. Greg Powers, QC*
Director

Morton H. Wyne*
Director

OFFICERS

Richard N. Edgar
President & CEO

Bruce G. Edgar
Vice President, Exploration

William E. Patterson, CA
Vice President, Finance, & CFO

LEGAL COUNSEL

Donahue Powers Wells
Suite 3800
Bankers Hall
855 - 2 Street SW
Calgary, Alberta T2P 4J8

TRANSFER AGENT & REGISTRAR

Montreal Trust Company of Canada
6th Floor
Western Gas Tower
530 - 8 Avenue SW
Calgary, Alberta T2P 3S8

* member of Audit Committee

AUDITORS

Buchanan Barry & Co.
800, 840 - 6 Avenue SW
Calgary, Alberta T2P 3E5

BANK

Alberta Treasury Branch

CORPORATE OFFICE

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website http://www.energynorthinc.com

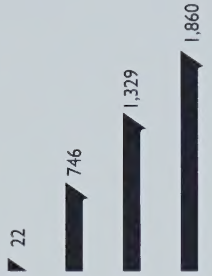
STOCK EXCHANGE LISTING

Alberta Stock Exchange
Trading Symbol ENI

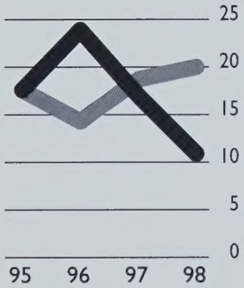
Abbreviations

ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent (1 BOE = 10 Mcf)
BOE/d	barrels of oil equivalent per day
MBOE	thousand barrels of oil equivalent
Bbl	barrel
Bbls	barrels
Bbls/d	barrels per day
MBbls	thousand of barrels
Mmbbls	millions of barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids

ENERGY NORTH INC.



Net Revenue
$ thousands



Pricing
$ per BOE

Oil price
Gas price (BOE equiv.)

Production Profile
Average BOE/d

Fiscal Year Ending December 31	1998	1997	% Change
FINANCIAL			
Petroleum and Natural Gas Revenue	$ 1,860,685	$ 1,329,295	40
Cash Flow from Operations	233,463	294,295	-21
Cash Flow per share	0.01	0.01	–
Net Earnings	(2,706,515)	(189,651)	–
Net Earnings per Share	(0.10)	(0.01)	–
Capital Expenditures	3,588,187	4,566,642	-21
Total Assets	8,068,965	9,863,311	-18
Bank Debt	2,539,669	nil	–
Shareholders' Equity	3,386,195	7,044,831	-52
Common Shares Outstanding			
End of Period	29,320,469	23,520,469	25
Weighted Average	27,954,088	23,520,469	19
Fully Diluted	31,570,469	35,737,136	-12
OPERATIONS			
Daily Average Production			
Crude Oil and NGLs (Bbls per day)	243	153	59
Natural Gas (Mcf per day)	1,388	743	87
Total BOE per day	382	227	68
Average Selling Price			
Crude Oil and NGLs ($ per Bbl)	10.94	17.02	-36
Natural Gas ($ per Mcf)	2.06	1.87	10
Proven Plus 50% Probable Reserves			
Crude Oil and NGLs (Bbls)	885,800	1,194,400	-26
Natural Gas (MMcf)	2,957.5	2,422.1	22
Total BOE	1,181,550	1,436,610	-18
Present Value of Reserves			
Discounted before Taxes at 15 percent	$ 6,553,500	$ 6,419,300	2
Discounted before Taxes at 10 percent	$ 7,585,400	$ 7,563,900	–

NET ASSET VALUE

	10% NPV P + 1/2 P	10% NPV P + P	15% NPV P + 1/2 P	15% NPV P + P
Total Value	$8,630,969	$10,912,869	$7,599,069	$9,438,269
Basic Shares	29,320,469	29,320,469	29,320,469	29,320,469
Net Asset Value (Basic)	$0.29	$0.37	$0.26	$0.32
Fully Diluted Common Shares	31,570,469	31,570,469	31,570,469	31,570,469
Net Asset Value (Fully Diluted)	$0.27	$0.35	$0.24	$0.30

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